# ROSE ON COTTON – COTTON MARKET FINISHES HIGHER ON WASDE WEEK, HURRICANE DELTA SLOWS HARVEST OPERATIONS

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The ICE Dec cotton contract gained 182 points for the week ending Oct 9, finishing at 67.64; the Dec – Mar switch weakened modestly to (78). Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to higher Vs the previous Friday's settlement, which proved to be correct. However, we decided not to trade this bias ahead of the WASDE report's release.

ICE cotton was higher on the week on expectations of supportive to bullish revisions to the USDA's domestic balance sheet and on fears of hurricane damage across the Mid-south and Southeastern US.

In its Oct WASDE report, the USDA projected of 2020/21 domestic production, consumption, and carryout effectively unchanged Vs Sept at 17.05M, 14.6M and 7.2M bales respectively, which surprised many analysts (including us). Aggregate world carryout was projected significantly lower at just north of 101M bales, which is still a horrendously bearish figure. With respect to the world less China carryout was projected tighter, but still very bearish, at more than 65M bales.

The USDA's latest estimates and projections have been met with much skepticism.

Domestic harvest progress for the week ending Oct 11 – which will be released on Monday, Oct 12 - should show strong harvest progress across The Belt. Hurricane Delta brought significant rainfall and storms across the Mid-south and the Southeast over the weekend, with most harvest operations within these regions now pushed back until late this week. Most of The Belt should see mostly dry conditions for the remainder of the week.

Net export sales and shipments were significantly lower Vs the previous assay period at approximately 200K and 165K RBs, respectively. The US is 59% committed and 17% shipped Vs the USDA's 14.6M bale export projection. Sales were ahead of the pace required to realize the USDA's target while shipments were off the pace requirement. Cancellations were significant while sales were mostly to Vietnam.

Internationally, cotton producers in Uzbekistan are crediting the use of Chinese drip irrigation technology for this season's yields. This is yet more evidence of China's involvement with cotton nations that are generally thought of as bad actors on the world stage. Elsewhere, continued dryness across Brazil continues to delay soybean sowing, which is on turn threatening to curb safrinha (second crop) area of cotton production.

For the week ending Oct 6, the trade increased its futures only net short position against all active contracts to approximately 12M bales, which signals that producer selling continues to occur, while large speculators increased their net long to around 5.15M bales.

For an in-depth analysis of CFTC data see our weekly CFTC analysis and commentary.

For next week, the standard weekly technical analysis for the Dec contract remains supportive to bullish, with the market again overbought; money flow is supportive to bullish. Next week the market will undoubtedly take stock of any damage done to the crop at the hands of hurricane Delta.

Producers walked a tightrope last week between recognizing the advisability of pricing a portion of their crop in the 68-cent range and concern over potential losses to Hurricane Delta. It is worth noting that even in the most severe weather events we've seen in the past several decades, most producers were able to safely bring in 60-75% of their estimated yield, and we repeat our previous advice to price 25-40% of estimated yield at or above 68 cents. Should futures move into the 70s in the coming week, we would recommend pricing 40-60% of estimated yield. As always, if basis or contract terms become unattractive, Mar or May put options are an attractive way to put a floor under a crop while still participating in gains from spot basis.

We do note that areas that have received little to no damage from Laura and Delta may want to consider a slightly selling a slightly larger portion of their crop on recaps in November due to expected premiums for premium middling and above. This strategy is safest when paired with the put hedge described above.

*Have a great week!*

**Report Courtesy: Rose Commodity Group**

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